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**WIND FOR ILLINOIS TO THE ILLINOIS
COMMERCE COMMISSION REGARDING THE ILLINOIS POWER
AGENCY'S 2009 INITIAL PROCUREMENT PLAN**

08-0519

OCTOBER 6, 2008

Wind for Illinois ("WFI") provides these comments and recommendations in response to the initial procurement plan submitted by the Illinois Power Agency ("IPA") to the Illinois Commerce Commission on September 3, 2008. Wind for Illinois is a non-profit organization dedicated to expanding wind energy generation in the state of Illinois. The comments below focus solely on the sections of the procurement plan pertaining to renewable energy credits ("RECs").

Overall, Wind for Illinois finds the draft procurement plan agreeable but in need of more detail. Several points should be expanded or clarified and other aspects of the plan need to be amended to ensure the goals of the Illinois Power Agency Act are achieved, such as promoting wind development in the state of Illinois and limiting REC price variability.

Recommended REC Procurement Strategy

The IPA is proposing a one-year procurement of RECs, similar to the initial renewable energy procurement performed by ComEd and Ameren to meet their 2009 Renewable Portfolio Standard ("RPS") obligations. However, this structure may not encourage broad participation of REC suppliers and could contribute to increased REC prices.

Using one-year agreements could discourage participation in the IPA procurement event, possibly placing upward pressure on REC prices as a function of supply and demand. One-year contracts likely reduced the pool of available RECs in the 2008 Ameren and ComEd procurements, as many potential suppliers chose not to participate in the procurements because more preferable, long-term contracts were not available. It is possible that using one-year contracts exclusively could discourage participation this year as well, and the IPA should design a procurement system that is attractive to potential suppliers.

To address this, WFI recommends that the IPA consider a different procurement strategy, focused on developing a "portfolio approach" that incorporates both short and long-term REC transactions. This strategy can enable the IPA to promote in-state wind development by more closely linking REC procurement to the cost of specific projects, while still enabling flexibility through short-term REC purchases.

The IPA is statutory obligated to procure renewable energy in a cost effective and efficient manner. Illinois' RPS law also sets forth specific goals for procuring wind energy and in-state renewable energy that must be met, while keeping overall prices within the price cap mandated in Section 1-75(c)(2) of the Illinois Power Agency Act. WFI is specifically interested in ensuring that the procurement process promotes in-state wind development.

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Generally, a single-year procurement, such as the ones carried out by Ameren and ComEd in 2008, do not provide the long-term revenue certainty to promote new development. As such, one-year REC procurements provide a limited stimulus for development of new wind capacity. The portfolio approach of accepting bids for multiple terms broadens the supply pool by stimulating the development of new resources.

For this specific procurement we recommend that the IPA solicit REC bids for varied terms, either fixed length (e.g one, three or five years) or at the discretion of the bidder. This will provide the IPA with more diverse procurement options and also provide vital price information that can inform the IPA's decision-making process. Providing the option to contract for different terms - from one to five years, for instance - would provide flexibility for both the IPA and bidders. All bidders will not have the same "sweet spot" in regards to term. The IPA also will want to structure its procurement in this way to diversify its portfolio so that it is not fully exposed to year-to-year price volatility, nor fully supplied by long-term contracts that may have been locked in during a period of high prices.

Recommendation: The IPA's renewable energy procurement should be structured to solicit and accept REC bids of multiple lengths in order to increase participation, build a portfolio that is hedged against price volatility, and enable bidders to make long-term offers which reflect the cost of wind development in Illinois.

Confidentiality of Amounts Purchased

The IPA should maintain confidentiality of the quantities of RECs required for each duration to encourage competitive bidding between suppliers. The amount the IPA needs to procure for any period to meet the RPS should not matter to bidders. Selection of the most economic bids at various durations to meet the portfolio goals, and keeping those quantities confidential would ensure that bidders could not back-solve into the maximum price the IPA could pay to fulfill its obligations under the RPS.

REC Master Agreement

The IPA should release the REC Master Agreement as soon as possible. The document will be a key part of the procurement process and stakeholders need the opportunity to review it before participating in the IPA process.

Transition into Power-Purchase Agreements

The IPA's proposal to use RECs as the means to fulfill the renewable energy requirements is likely the best way to fulfill the immediate term RPS mandate (provided that the "portfolio approach" outlined above is utilized). In future years, however, the IPA should begin considering long-term PPA's as a tool in fulfilling the RPS mandate.

Allowing long-term PPAs will make renewables a more integrated player in the IPA power procurement process, rather than just a part of the separate, segregated portfolio as is currently the case. Because renewables, especially wind and solar, are fuel free, long-term PPA's are the best way to maximize the price-hedging advantages of these energy sources. A PPA-oriented approach will also foster development of new projects by demonstrating that long-term revenues are available.

A PPA-oriented approach is especially important in light of the recent credit crisis, which could make wind project financing more difficult. Short-term REC purchase agreements do not provide an additional level of certainty that is conducive to accessing capital markets.

Long-term PPA's should be one part of a portfolio the blends PPA's and REC procurement, as this will maximize the IPA's flexibility. While long-term PPA's are an important, at times essential component to get new projects developed, markets work best when there is also liquidity. As such, the IPA should blend long-term PPA's with varied length REC purchases to maximize market efficiency - similar to how a sound investment portfolio blends different assets of different terms to reduce risk while maximizing returns.

Role of "3rd Party Wind Consultant"

From the draft procurement plan:

To prevent the possibility of wind supplier from proposing inflated REC quantities, an independent 3rd party wind consultant will be utilized to evaluate the suppliers' wind resources. Based on a standard methodology developed by the consultant, an estimate of the expected REC production of each wind farm will be developed. In the event the supplier's quantity of RECs exceeds the consultants estimated quantity, the bid amount will be limited to the consultants estimate.

It is unclear what the purpose of this 3rd party consultant will be in the procurement, and the draft plan offers no discussion of the need for such a consultant. It can be assumed, however, that the Agency believes a consultant is necessary to ensure participants deliver the RECs they are contracted to provide. If there is evidence that a REC supplier may propose such "inflated quantities," the Agency should provide justification for this so that the consultant can better prepare the "standard methodology."

In addition, the Agency should clarify the consultant's role, its relationship to the procurement administrator, and the intended structure of the methodology. The IPA should also issue specific qualifications for the position. This would all provide clarity to potential participants in the procurement as well as entities that may seek to serve as the consultant.

The Agency should note that suppliers may be reluctant to participate in a procurement system that requires suppliers to disclose privileged or proprietary information regarding their wind resources.

Suppliers may also hesitate to participate in a procurement where bid amounts are "limited to the consultants estimate" and do not provide for any negotiation. Again, reduced participation in the procurement could further reduce the available pool of RECs and possibly drive up REC prices.

These comments are respectfully submitted on behalf of Wind for Illinois by:

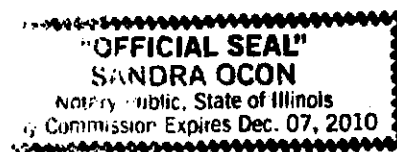
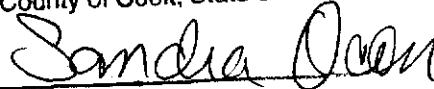


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Subscribed and sworn to before me.

this 6th day of October 2008
at Chicago, County of Cook, State of Illinois.

Notary Public



NOTICE OF FILING

Please take notice that on October 8, 2008, Wind for Illinois filed an original of its Petition for Leave to Intervene with Elizabeth A. Rolando, Chief Clerk of the Illinois Commerce Commission, by deposit in the United States mail, first class postage prepaid.

CERTIFICATE OF SERVICE

I, Kevin Borgia, on oath state that I served this notice of filing and the Petition for Leave to Intervene to each person on the attached service list, as indicated, on October 8, 2008, by deposit in the United States mail, first class postage prepaid.

K-CB

Kevin Borgia

Subscribed and sworn to before me

this 9 day of October, 2008
at Chicago, County of Cook, State of Illinois.

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